Soviet Reorganization of the Foreign Trade Apparatus

In late September the Soviets announced a major overhaul of the Ministry of Foreign Trade (MFT). More than twenty ministries and seventy large associations and enterprises are to be granted authority to conduct trade directly with their foreign partners as of 1 January 1987. To carry out this trade, the ministries and production associations will have foreign trade organizations placed under their jurisdiction, many of which will be transferred from the MFT.

Breaking the MFT's monopoly over foreign trade is clearly tied to Soviet efforts to expand exports of manufactured goods by strengthening the links between producers and world markets. In addition, it is designed to improve the efficiency of importing Western technology by giving end-users more say in contract negotiations. Under the current system, negotiations are drawn out and purchases often do not meet the requirements of the end-users as price considerations of the foreign trade organizations win out over technical specifications.

Included in the list of ministries being granted the right to conduct trade directly are the State Agroindustrial Committee (Gosagroprom), The State Committee for Material and Technical Supplies (Gossnab), the Ministry of Chemical Industry, and machine-building ministries, although their precise roles have yet to be defined. The Soviets have publicly indicated that, at least for the present, the MFT will continue to control trade in raw materials, food, and about 60 percent of machinery imports. [redacted] 25X1
[redacted] Gosagroprom will acquire control over all agricultural trade, which would mark a further diminution of the MFT's power. It is expected that in time additional ministries and enterprises will be granted autonomy over their trade transactions.

At present it is uncertain as to exactly how funds will be allocated to cover imports, but it appears likely that distribution of funds will continue to be centrally determined. Selected ministries and enterprises--presumably at least some of the ministries and enterprises being granted authority to conduct their own trade transactions--will probably be allocated funds to make purchases without central approval. Failure to meet export targets, however, will result in a reduction in allocated funds. Selected ministries and enterprises will also be able to retain up to 90 percent of export earnings--although Embassy Moscow indicates that this will pertain only to above-plan exports--and Vneshtorgbank (VTB), the Bank for Foreign Trade, can extend enterprises credits.

As part of the reorganization, the Soviets have created a coordinating commission made up of the heads of the major ministries and departments engaged in trade activities. It is supposed to provide strategic guidance to the foreign trade sector; its command over resources, however, appears to be far less than that accorded to the state committees formed to oversee agriculture and construction. The commission's clout had been enhanced by the naming of V. M. Kamentsev, a recently appointed deputy chairman of the Council of Ministries with reportedly strong administrative and negotiating skills. The MFT and the State Committee for Foreign Economic Relations--which administers economic and military programs--will continue to monitor foreign trade operations but, at least for the MFT, with reduced power. VTB appears to have gained a greater role in controlling the distribution of scarce hard currency funds.

These recent changes are not likely to have much success in expanding exports. Although they will probably improve the operation of trade by removing the MFT as a cumbersome middleman, the changes do not remedy the lack of domestic incentives for producers, the irrational price structure, and the inadequate technological base that underlie the poor performance of Soviet manufactured goods on world markets. In addition, depressed earnings from traditional exports will severely constrain purchases of foreign equipment that could compensate for some of these shortfalls.

Table 1

Soviet Ministries with Direct Access to Foreign Trade Partners

as of 1 January 1987

State Committees
- Gossnab (State Committee for Material and Technial Supplies)
- Gosagroprom (State Agroindustrial Committee)*
- GKNT (State Sports Committee)*
- Goskomsport (State Sports Committee)*
- Goskomizdat (State Publishing Committee)*

Machine-Building Ministries
- Minenergomash (Ministry for Power Engineering)
- Mintyazhmash (Ministry of Heavy Machine-Building Industries)
- Minelektrotekhprom (Ministry of Electrical Equipment Industry)
- Minavtoprom (Ministry of Automotive Industry)
- Minselkhozmash (Ministry of Machine-Building for Argiculture)
- Minpribor (Ministry for Instrument Making and Automation)
- Minstanoprom (Ministry for Machine-tool Building Industries)
- Minkhimmash (Ministry of Chemical and Petroleum Machine-Building)

Other
- Mirmorlot (Ministry of Merchant Marine)*
- Minrybkhoz (Ministry of Fisheries)*
- Mingeo (Ministry of Geology)
- GUCK (Main Administration of Geodesy and Cartography)
- Minkhimprom (Ministry of Chemical Industry)
- Minstroimaterialov (Ministry of Building Materials Industry)
- Minmedbioprom (Ministry of Medical and Biological Industries)
- Tsentrosyuz (The Central Union of Consumer Cooperatives)*

*Entities already having some control over their foreign economic relations.

Table 2

Composition of Foreign Economic Commissions

Chairman
V. M. Kamentsev
USSR Council of Ministers

First Deputy Chairman
A. K. Antonov
Council of Ministers and USSR Representative to CEMA

State Committee for Science and Technology
Chairman

Gosagroprom
First Deputy Chairman

Machine Building Bureau
Chairman (I.S. Silaev)

Vneshtorgbank (VTB)
Chairman (Yu. A. Ivanov)

State Committee for Foreign Economic Relations
Chairman (Yu. A. Ivanov)

Gosplan
First Deputy Chairman

Ministry of Foreign Trade
Minister (B.I. Aristov)

Ministry of Finance
Minister (B.I. Gostyev)

Gossnab
First Deputy Chairman (V.O. Kulikov)

Ministry of Foreign Affairs
Deputy Minister

Soviet Contracts with the West

Soviet orders of machinery and equipment from the West have tumbled in 1986 following last year's sharp upturn. Orders through the first three quarters of this year totaled just $1.5 billion compared with $3.4 billion worth of orders placed during the same period in 1985. Most of this year's orders occurred during the first quarter, with third-quarter signings of just $232 million the lowest quarterly level in over two years.

Contracts in four major categories--oil and natural gas, timber and wood, ships and port equipment, and mining and construction--have dominated orders to date, accounting for over 60 percent of this year's total. Orders in most other categories have been weak. The Japanese have achieved the most success, with contracts of over $500 million through three quarters far exceeding orders of $161 million received during all of 1985. Italy, on the other hand, has seen orders drop from $1.9 billion in 1985 to just $114 million so far this year. Orders placed with US companies of almost $78 million lag behind last year's pace, but are roughly equal to average annual orders received during 1981-85.

Machinery and equipment orders are unlikely to pick up much over the remainder of the year. Although orders often tend to be cyclical over the five-year planning period, this year's downturn reflects, for the most part, declining Soviet hard currency earnings and changing investment decisions to accomodate Gorbachev's modernization program. Contracts for several large projects which were expected to be concluded this year have been cancelled, postponed, or scaled back. Priority orders for machinery and equipment may also be delayed as importers wait for the reoganization of the foreign trade apparatus to take effect on 1 January--and even then contract signings could be further delayed by confusion as to exactly how the new system operates.

USSR: Quarterly Machinery and Equipment Orders, 1983–86

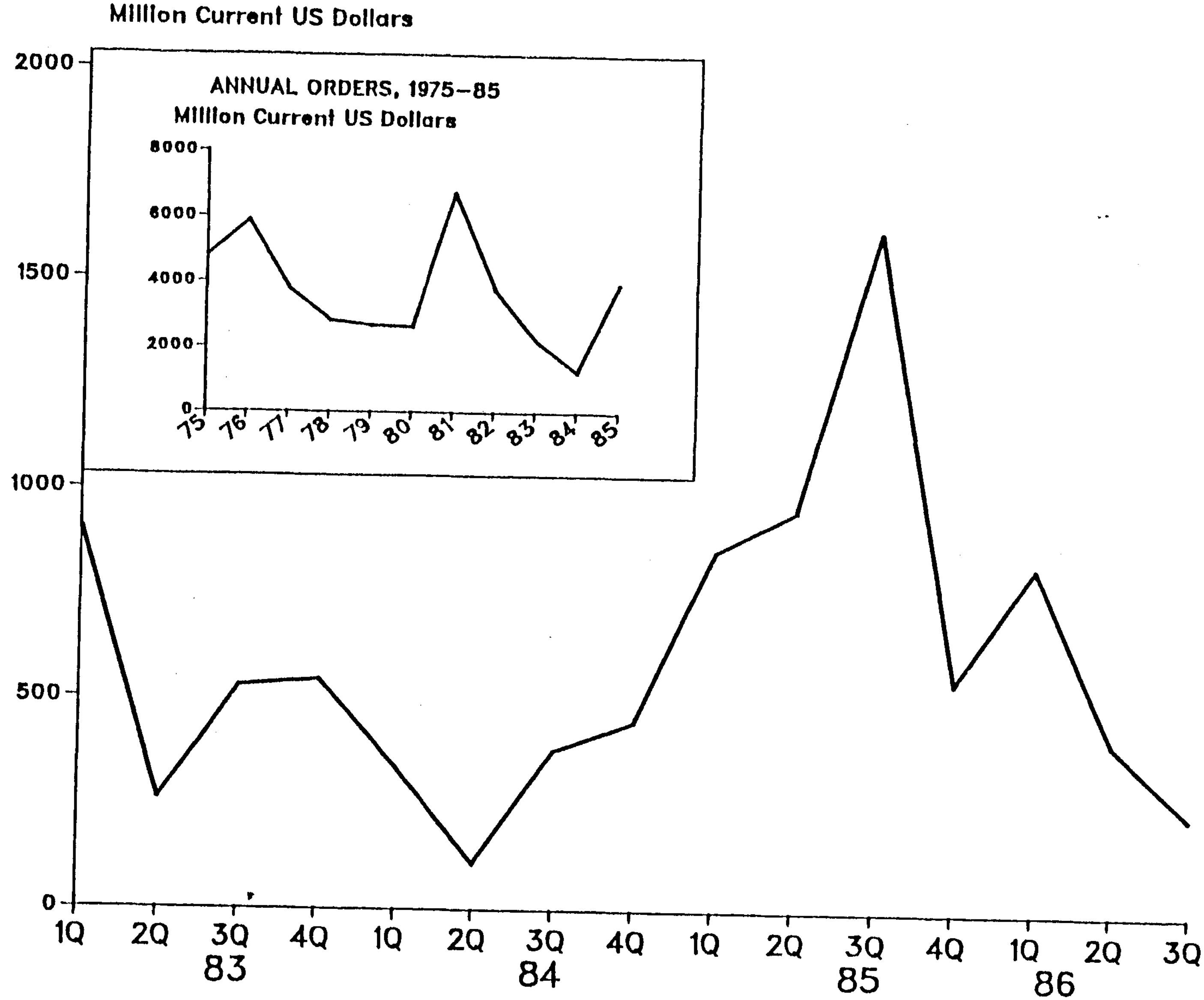

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Table 1

Soviet Machinery Orders Placed with Hard Currency Countries*

(Million Current US Dollars)

	1985					1986		
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total	1st Qtr	2nd Qtr	3rd Qtr
Total	852	953	1619	544	3968	821	407	232
Chemicals and Petrochemical	0	276	12	40	328	12	60	19
Oil and Natural Gas	24	439	0	171	634	250	15	11
Metalworking and Metallurgy	522	3	982	111	1618	24	12	--
Food Processing	55	2	--	1	58	8	12	47
Timber and Wood	7	--	40	34	81	58	116	--
Textile and Servicing	--	56	--	3	59	35	--	5
Electric Power	9	13	15	--	37	--	47	8
Electronics	--	15	18	1	34	47	--	4
Manufacturing of Automobiles and Other Vehicles	14	45	8	58	125	71	31	--
Ships and Port Equipment	17	57	4	87	165	121	75	90
Manufacture of Consumer Goods	100	2	55	5	162	10	6	1
Mining and Construction	27	20	472	24	543	136	21	6
Railroad Stock and Equipment	2	--	--	--	2	40	--	--
Aircraft and Equipment	--	--	0	--	0	2	--	--
Farm Tractors and Machinery	31	11	0	0	42	7	0	--
Animal Feed Plants and Equipment	--	--	--	3	3	--	--	--
Printing	--	--	2	6	8	--	9	--
Measuring and Testing	--	9	4	--	13	--	--	--
Optic and Optic Manufacturing	1	0	--	--	1	--	--	--
Medical and Pharmaceutical	1	--	2	--	3	--	3	--
Photographic	1	0	1	--	2	--	--	--
Vehicles (User unknown)	41	1	4	--	46	--	--	--
Other	0	54	--	--	4	--	--	41

- Indicates no orders recorded. 0 indicates negligible amounts.
* Components may not add to total shown because of rounding.

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Table 2

Soviet Machinery Orders by Country

(Million Current US Dollars)

	1985					1986		
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total	1st Qtr	2nd Qtr	3rd Qtr
Total	852	953	1619	544	3968	821	407	232
Japan	87	30	27	17	161	413	90	1
Tunisia	-	2	-	-	2	-	-	--
United States	48	72	55	72	247	34	10	34
Austria	532	-	5	-	537	100	1	13
Belgium	3	3	1	-	7	8	-	--
Denmark	2	13	15	-	30	-	23	--
France	5	445	7	68	525	83	5	5
Germany	37	24	42	195	298	81	13	36
Italy	100	291	1424	109	1924	26	24	64
Netherlands	-	3	-	0	3	0	0	--
Spain	-	59	0	-	59	0	115	--
Switzerland	-	0	-	1	1	0	4	1
Sweden	31	1	41	14	87	36	37	--
United Kingdom	7	3	2	0	12	38	12	--
Australia	-	2	-	-	2	-	-	--
Other	-	5	-	68	73	2	73	78

Soviet Manufactured Exports to the West: Trends and Impediments

Although the USSR has taken numerous steps to expand its exports of manufactured goods over the past two decades, it remains a minor exporter of these commodities. In fact, the dramatic rise in energy prices resulted in the share of manufactured goods in total Soviet exports to the West dropping from 33 percent in 1970 to only 15 percent in 1984. Futhermore, after a sustained growth of these exports of about 14 percent per annum during the 1970s, exports of manufactured goods virtually stagnated in the 1980s.

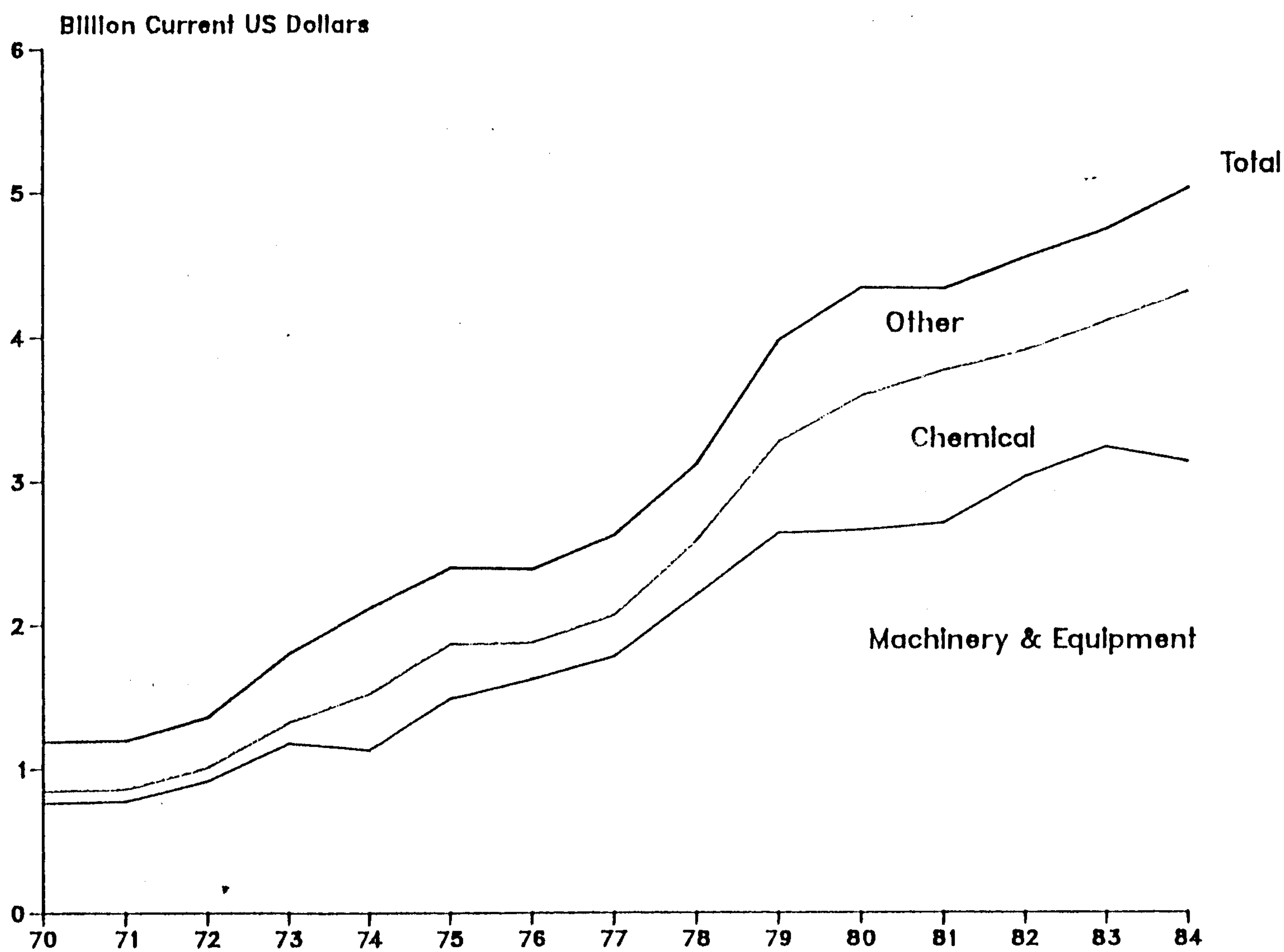
Moscow has been particularly lackluster in expanding exports of machinery and equipment to the developed West. The bulk of exported Soviet machinery consists of industrial transport equipment, simple machine tools, small tractors, trucks, and passenger cars. As a rule, these exports are technically inferior to Western hardware, of questionable quality, and not backstopped by an efficient network of service and spares. Most machinery exports still go to the less developed countries and are often linked to Soviet development projects. Even in the LDCs, some of Moscow's customers such as India and Iraq have been looking elsewhere for machinery and equipment purchases.

The Soviets have been most successful in expanding exports of chemicals, which have increased from under $400 million in 1975 to $1.2 billion in 1984. This growth was spurred by large compensation deals with Western firms combined with sizeable purchases of Western manufacturing technology.

Moscow's failure to become a more substantial exporter of manufactured goods stems from an economic system which provides little incentive for manufacturers to produce for export. While domestice enterprises are paid a higher price for goods produced for export to compensate for the extra costs required to meet export specifications, factory managers argue that the prices are not sufficient to cover production costs. More important, the need to meet export specifications that differ from domestic standards interferes with the ability to meet output targets. In addition, the right of enterprises to retain a portion of their hard currency earnings to purchase Western equipment and materials has largely been ignored. The Bank for Foreign Trade (Vneshtorgbank) often drags its feet and even refuses to allocate hard currency which is technically owned by the enterprises.

Although the recent changes to the foreign trade apparatus are designed to correct many of these problems, we do not believe that they will be sufficient to improve Moscow's export position. For the most part, Soviet producers, so far, have neither the incentives nor the wherewithall to meet quality requirements for exports. Nor can the Soviets afford a major infusion of Western technology with which to modernize their facilities enough to have a major impact on Soviet manufactured exports. In addition, for almost all Soviet exports of manufactured goods, the Soviets will compete increasingly with goods from some of the more progressive LDCs. For example, expansion of chemical exports is likely to continue, but at much slower rates than in the past decade due to demand constraints and increased sales by OPEC producers. Increased exports of passenger cars are also likely as recent improvements in export models of passenger cars will help keep these exports competitive, but here, too, the Soviets will face keen competition, especially from Asian sellers.

USSR: Exports of Manufactural Goods to the West



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